



DECEMBER 2016

ACCOUNTING III

**Instructions to candidates:**

- a) Time allowed: Three hours (plus an extra ten minutes' reading time at the start – do not write anything during this time)
- b) Answer ALL questions in Part A and any ONE question in Part B
- c) Part A carries 85% of the marks and Part B carries 15% of the marks. Marks for each question are shown in [ ]
- d) Non-programmable calculators are permitted in this examination

**PART A**

1. The position statements (balance sheets) of Marconi Ltd at 30 November were as follows:

	2015 (£000)		2016 (£000)	
<b>FIXED ASSETS</b>				
Buildings		1,000		1,100
Equipment	600		650	
Less depn.	<u>(250)</u>	350	<u>(400)</u>	250
Vehicles	200		300	
Less depn.	<u>(100)</u>	<u>100</u>	<u>(180)</u>	<u>120</u>
		1,450		1,470
<b>CURRENT ASSETS</b>				
Stock	400		450	
Debtors	420		450	
Bank/cash	<u>30</u>	850	—	900
<b>CURRENT LIABILITIES</b>				
Creditors	(270)		(300)	
Overdraft			(40)	
Dividend owing	(60)		(70)	
Tax owing	<u>(30)</u>	<u>(360)</u>	<u>(50)</u>	<u>(460)</u>
		1,940		1,910
<b>LONG-TERM LOAN</b>		<u>(700)</u>		—
		1,240		1,910
		=====		=====
<b>CAPITAL AND RESERVES</b>				
£1 Shares		700		1,200
Retained profit		<u>540</u>		<u>710</u>
		1,240		1,910
		=====		=====

Note: Interest on the loan paid in year ended 30 November 2016 was £12,000.

**TASKS**

- a) Calculate the profit (before interest and tax) for the year ended 30 November 2016. [3]
  - b) Prepare the cash flow statement for the year ended 30 November 2016. [9]
  - c) Explain the principal cash movements in the past year. [8]
  - d) IAS7 also allows the statement of cash flows to be prepared using the 'direct method'. Explain the differences between the 'indirect' and 'direct' methods, and why companies usually prefer to use the 'indirect' method. [5]
2. Explain why historical cost financial statements are deficient in times of rising prices, and describe different valuation methods. [10]

3. You are presented with the following information from the Boswell group of companies for the year to 30 November 2016.

	Boswell plc	Jones plc	Microft plc
	£000	£000	£000
Non-current assets	1,400	800	600
	----	----	----
Investments:			
Shares in Jones plc	700		
Shares in Microft plc	500		
	----		
	1,200		
	----		
Current assets			
Stocks (inventories)	450	300	200
Debtors (receivables)	400	240	140
Bank	40	20	10
	----	----	----
	890	560	350
	----	----	----
Current liabilities			
Creditors (payables)	(550)	(280)	(120)
	----	----	----
Net current assets	340	280	230
	----	----	----
Total net assets	2,940	1,080	830
	=====	=====	=====
Capital and reserves:			
Ordinary shares (£1)	1,700	600	500
Profit and loss account	1,240	480	330
	----	----	----
	2,940	1,080	830
	=====	=====	=====

Additional information:

- A Boswell plc purchased 400,000 shares in Jones plc on 15 September 2015, when Jones's profit and loss account balance stood at £150,000.
- B Boswell plc purchased 300,000 shares in Microft plc on 19 March 2016, when Microft's profit and loss account balance stood at £80,000.
- C During the year ended 30 November 2016 Jones plc had sold goods to Microft plc for £18,000. These goods had cost Jones plc £8,000. Half of these goods are still in stock.
- D Included in the respective creditor balances were the following inter-company debts:
- Boswell plc owed Jones plc £7,000
  - Microft plc owed Jones plc £10,000
  - Boswell plc owed Microft plc £6,000
- E Boswell plc writes off any goodwill arising on consolidation to reserves.

TASK

Prepare the Boswell plc's group position statement (balance sheet) as at 30 November 2016. Your workings should be included.

[25]

4. The following information has been obtained from the accounts of two companies:

Profit and loss account (extracts) for the year ended 30 November 2016:

	Co. C	Co. D
	£000	£000
Profit before interest and tax	500	500
Interest	(60)	(12)
Taxation	(88)	(96)
	----	----
Profit after tax	352	392
Dividends	(100)	(150)
	----	----
Retained profit for year	252	242
	=====	=====

Balance sheet (extracts) as at 30 November:

	Co. C	Co. D
£1 Ordinary shares	500	1,000
Long-term loans	900	200
Retained profits	400	600
	----	----
	1,800	1,800
	=====	=====
Market price of one share	£9.00	£6.00

#### TASKS

- a) Calculate the following for EACH of the companies:
  - i The gearing percentage
  - ii The earnings per share (EPS)
  - iii The PE ratio
  - iv The dividend cover
  - v The return on capital employed [10]
- b) Comment on the financial performance of the two companies. [10]
- c) Explain the importance of using a range of ratios to monitor the financial performance of a business. [5]

#### PART B

5. From the balance sheet of an unquoted limited company it is possible to estimate the value of a single share in that company by using the Net Assets Method of valuation.

#### TASKS

- a) Explain how you would attempt to calculate the value of a share using the Net Assets Method and what alternative bases of calculation you might consider. [5]
- b) What are the shortcomings of this method of valuation? Give examples to illustrate your answer. [5]
- c) Indicate the factors that influence the price of quoted companies. [5]

6. During the year to 30 November 2016 Oaklahoma plc made a new offer of shares. The details of the offer were as follows:

1,000,000 £1 ordinary shares were issued on the following terms:

01 February 2016 on application 70 pence per share.

01 March 2016 on allotment 100 pence per share (this includes the share premium).

26 June 2016 first and final call 50 pence per share.

Applications for 1,500,000 were received, and were allotted on a 2 for 3 basis.

On the first and final call, one applicant who had been allotted 2,000 shares failed to pay the due amount, and the shares were duly declared forfeited. They were then reissued on 31 July 2016 at a price of £2.00 per share.

The number of ordinary shares in issue as on 1 December 2015 was 2,000,000 – all issued at par.

#### TASKS

Record the above transactions in the following ledger accounts:

- a) Application and allotment account
- b) Ordinary share capital account
- c) Share premium account
- d) First and final call account
- e) Forfeited shares account

[15]